

CONTRACTOR'S INPUT TO TOTAL
PERFORMANCE—Continued

Direct materials	Weight range (per- cent)
Contractor's assumptions of contract cost risk ...	0 to 6 .
Record of contractor's performance	-2 to +2.
Cost efficiency	
Management	
Extent of investment	
Reliability of cost estimates	
Inventive and developmental contributions	
Timely performance	
Small business participation	
Labor surplus area participation	
Extent of Government assistance	
Effect of competition	

(2) The Contracting Officer shall first measure the "Contractor's Input to Total Performance" by the assignment of a profit percentage within the designated weight ranges to each element of contract cost recognized by the Contracting Officer. Such costs are multiplied by the specific percentages to arrive at specific dollar profits. The amount calculated for facilities capital cost of money shall not be included as part of the cost base for the computation of profit or fee. A complete discussion of how facilities capital cost of money is determined and how it is applied and administered is set forth in FAR 31.205-10.

(3) After computing a total dollar profit for the Contractor's Input to Total Performance, the Contracting Officer shall calculate the specific profit dollars assigned for cost risk and performance. This is accomplished by multiplying the total Government cost objective, exclusive of any facilities capital cost of money, by the specific weight assigned to cost risk and performance. The Contracting Officer shall then determine the profit or fee objective by adding the total profit dollars for the Contractor's Input to Total Performance to the specific dollar profits assigned to cost risk and performance. The profit or fee objective shall then be reduced by an amount equal to the amount of facilities capital cost of money allowed. EPA Form 1900-2 shall be used to facilitate the calculation of this profit or fee objective.

(4) The weight factors shown are designed for arriving at profit or fee objectives for other than nonprofit and

not-for-profit organizations. Adjustments as explained below are to be made to reflect differences between profit and nonprofit organizations.

(i) For purposes of this subparagraph, nonprofit and not-for-profit organizations are defined as those business entities organized and operated exclusively for charitable, scientific or educational purposes, no part of the net earnings of which inure to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda or otherwise attempting to influence legislation or participating in any political campaign on behalf of any candidate for public office, and which are exempt from Federal income taxation under section 51 of the Internal Revenue Code.

(ii) For contracts with nonprofit and not-for-profit organizations where fees are involved, the following adjustments are required:

(A) A special factor of -3 percent shall be assigned in all cases.

(B) The weighted ranges from "Record of Contractor's Performance" shall be halved, i.e., -1 percent to +1 percent rather than -2 percent to +2 percent.

(b) *Assignment of values to specific factors*—(1) *General*. In making his/her judgment of the value of each factor, the Contracting Officer should be governed by the definition, description, and purpose of the factors together with considerations for evaluating them as set forth herein.

(2) *Contractor's input to total performance*. This factor is a measure of how much the Contractor itself is expected to contribute to the overall effort necessary to meet the contract performance requirements in an efficient manner. This factor, which is apart from the Contractor's responsibility for contract performance, takes into account what resources are necessary and what the Contractor itself must do to accomplish a conversion of ideas and materials into the final item called for in the contract. This is a recognition that within a given performance output, or within a given sales dollar figure, necessary efforts on the part of individual contractors can vary widely in both value and quantity, and that the profit

objective should reflect the extent and nature of the Contractor's contribution to total performance. Greater profit opportunity should be provided under contracts requiring a high degree of professional and managerial skill and to prospective contractors whose skills, facilities, and technical assets can be expected to lead to efficient and economical contract performance. The evaluation of this factor requires an analysis of the cost content of the proposed contract as follows:

(i) *Direct materials (purchased parts, subcontracted items, and other material).* Analysis of these cost items shall include an evaluation of the managerial and technical effort necessary to obtain the required purchased parts, subcontracted items, and other materials. This evaluation shall include consideration of the number of orders and suppliers, and whether established sources are available or new sources must be developed. The Contracting Officer shall also determine whether the Contractor will, for example, obtain the materials by routine orders or readily available supplies (particularly those of substantial value in relation to the total contract costs), or by detailed subcontracts for which the prime Contractor will be required to develop complex specifications involving creative design or close tolerance manufacturing requirements. Consideration should be given to the managerial and technical efforts necessary for the prime Contractor to administer subcontracts, and select subcontractors, including efforts to break out subcontracts from sole sources, through the introduction of competition. These determinations should be made for purchases of raw materials or basic commodities, purchases of processed material including all types of components of standard or near-standard characteristics, and purchases of pieces, assemblies, subassemblies, special tooling, and other products special to the end-item. In the application of this criterion, it should be recognized that the contribution of the prime Contractor to its purchasing program might be substantial. This might be applicable in the management of subcontracting programs involving many sources, involving new complex components and

instrumentation, incomplete specifications, and close surveillance by the prime Contractor's representative. Recognized costs proposed as direct material cost such as scrap charges shall be treated as material for profit evaluation. If intracompany transfers are accepted at price, in accordance with FAR 31.205-26(e), they should be excluded from the fee computation. Other intracompany transfers shall be evaluated by individual components of cost, i.e., material, labor, and overhead. Normally, the lowest weight for direct material is 2 percent. A weighting of less than 2 percent and would be appropriate only in unusual circumstances when there is a minimal contribution by the Contractor in relation to the total cost of the material.

(ii) *Equipment.* It is the policy of the Agency to contract with individuals or firms who have special capabilities relative to the needs of the EPA. These capabilities include personnel with particular skills, or talents, and facilities (plant and equipment) necessary to complete the contract objectives. For the purpose of profit/fee analysis, equipment includes purchased items which are not to be an integral part of the final product. It would generally consist of production or test equipment. Where the EPA has to provide equipment to be Contractor either as Government-furnished equipment or Contractor-acquired equipment, appropriate profit/fee adjustments are necessary. Generally, a low weight range shall be assigned to the cost of such equipment (1 to 2 percent).

(iii) *Engineering labor and manufacturing labor.* Analysis of the engineering labor and manufacturing labor items of the cost content of the contract should include evaluation of the comparative quality and level of the engineering talents, manufacturing skills, and experience to be employed. In evaluating engineering labor for the purpose of assigning profit dollars, consideration should be given to the amount of notable scientific talent or unusual or scarce engineering talent needed in contrast to journeyman engineering effort or supporting personnel. The diversity, or lack thereof, of scientific and engineering specialties required for contract performance and

the corresponding need for engineering supervision and coordination should be evaluated. Similarly, the variety of manufacturing labor skills required and the Contractor's manpower resources for meeting these requirements should be considered. For the purpose of profit/fee computation, manufacturing labor includes all nonprofessional labor, e.g., secretaries, technicians and carpenters, etc.

(iv) *Engineering overhead, manufacturing overhead, and general and administrative expenses.* (A) Where practicable, analysis of these overhead items of costs should include the evaluation of the make up of the expenses and how much they contribute to contract performance. This analysis should include a determination of the amount of labor within these overhead pools and how this labor would be treated if it were considered as direct labor under the contract. The allocable labor elements should be given the same profit consideration that they would receive if they were treated as direct labor. The other elements of these overhead pools should be evaluated to determine whether they are routine expenses such as utilities, depreciation, and maintenance, and hence given lesser profit consideration given the pools as a whole.

(B) It is not necessary that the Contractor's accounting system break down its overhead expenses within the classification of engineering overhead, manufacturing overhead, and general and administrative expenses. The Contractor whose accounting system only reflects one overhead rate on all direct labor need not change its system to correspond with all the above classifications. Where practicable, the Contracting Officer in his/her evaluation of such a Contractor's overhead rate should break out the applicable sections of the composite rate which could be classified as engineering overhead, manufacturing overhead, and general and administrative expenses and follow the appropriate evaluation technique. When it is not practicable to evaluate the elements of the burden pool, the following rates should usually apply:

	Percent
Engineering overhead	7.5

	Percent
Manufacturing overhead	5.5
Composite overhead	6.5
G&A	6.5

(C) It is not necessary for the Contracting Officer to make a separate profit evaluation of overhead expenses in connection with each procurement action for substantially the same product with the same contractor. Once an analysis of the profit weight to be assigned the overhead pool has been made, the weight assigned may be used for future procurements with the same contractor until there is a change in the cost composition of the overhead pool or the contract circumstances.

(v) *Consultants.* Consultant costs, whether related to an individual consultant or consulting firm should be analyzed from the standpoint of what talents and skills the consultants have and how they will be used on the contract. The analysis should consider if the Contractor normally should be expected to have people with comparable expertise employed as full-time staff or if the contract requires skills not normally available on an employer-employee relationship. Where the Contractor is using consultants to perform services which could normally be expected to be done in-house, the rating factor should be generally below 2 to 3 percent. Where noted experts are retained for consultation on the contract, the rating will generally be higher.

(vi) *Other direct costs.* Items of costs, such as travel, subsistence, printing, and computers should generally be assigned a rating of 1 to 3 percent. The analysis of these costs should be similar to the analysis of direct materials.

(3) *Contractor's assumption of contract cost risk.* (i) It is the policy of the Administration to shift the risk of contract costs to the fullest extent practicable to contractors and to compensate them for the assumption of this risk. Evaluation of this risk requires a determination of:

(A) The degree of cost responsibility the Contractor assumes, (B) the reliability of the cost estimates in relation to the task assumed, and (C) the chance of the Contractor's success or failure. This factor is specially limited

to the risk of contract costs. Thus, such risks of losing potential profits in other fields are not within the scope of this factor.

(ii) The first and basic determination of the degree of cost responsibility assumed by the Contractor is related to the sharing of total risk of contract cost by the Government and the Contractor through the selection of contract type. The extremes are a cost-plus-fixed-fee contract requiring only that the Contractor use its best efforts to perform a task, and a firm-fixed-price contract for a complex item. Such cost-plus-fixed-fee contract would reflect a minimum assumption of cost responsibility, whereas such firm-fixed-price contract would reflect a complete assumption of cost responsibility. Therefore, in the first step of determining what value is to be given for the Contractor's assumption of contract cost risk, a zero rating shall be given to a proposed cost-plus-fixed-fee best efforts contract, and a higher rating shall be given to a closely priced firm-fixed-price contract for a new, complex item.

(iii) The second determination is that of the reliability of the cost estimates. Sound price negotiation requires well-defined contract objectives and reliable cost estimates. An excessive cost estimate reduces the possibility that the cost of performance will exceed the contract price, thereby reducing the Contractor's assumption of contract cost risk.

(iv) The third determination is that of the difficulty of the Contractor's task. The Contractor's task can be difficult or easy, regardless of the type of contract.

(v) Contractors are likely to assume greater cost risks only if the Contracting Officers objectively analyze the risk incident to proposed contracts and are willing to compensate Contractors for it. Generally, a cost-plus-fixed-fee contract would not justify a reward for risk in excess of 1 percent, nor would a firm-fixed-price contract justify a reward of less than 4 percent. Where proper contract type selection has been made, the reward for risk by contract type would usually fall into the following percentages ranges:

Type of contract	Percentage ranges
Cost-plus-fixed-fee	0 to 1.
Cost-plus-incentive-fee including cost incentives only.	1 to 2.
Cost-plus-incentive-fee including cost, performance, and delivery incentives.	2½ to 3.
Fixed-price-incentive including cost incentives only.	2 to 4.
Fixed-price-incentive including cost, performance, and delivery incentives.	3 to 5.
Prospective price determination	4 to 5.
Firm-fixed-price	4 to 6.

(A) These ranges may not be appropriate for all procurement situations. For instance, a fixed-price-incentive contract which is closely priced with a low ceiling price and a high incentive share may be tantamount to a firm-fixed-price contract. In this situation, the Contracting Officer might determine that a basis exists for high confidence in the reasonableness of the estimate, and that little opportunity exists for cost reduction without extraordinary efforts. The Contractor's willingness to accept ceilings on their burden rates should be considered as a risk factor for cost-plus-fixed-fee contracts.

(B) In making a contract cost risk evaluation in a procurement action that involves definitization of a letter contract, consideration should be given to the effect on total contract cost risk as a result of having partial performance under a letter contract. Under some circumstances, it may be reasoned that the total amount of cost risk has been effectively reduced by the existence of a letter contract. Under other circumstances, it may be apparent that the Contractor's cost risk remained substantially as great as though a letter contract had not been used. Where a Contractor has begun work under an anticipatory cost letter, the risk assumed is greater than the normal situation. To be equitable the determination of a profit weight for application to the total of all recognized costs, both those incurred and those yet to be expended, must be made with consideration to all attendant circumstances, not just to the portion of costs incurred or percentages of work completed, prior to definitization.

(4) *Record of contract performance.* (i) The purpose of this factor is to motivate Contractors to improve their performance by rewarding them for excellent past performance and penalizing them for poor performance. Effective use of this factor requires that: (A) Reports on the various aspects of past performance be obtained and evaluated; and (B) this information be used in such a way as to motivate Contractors to improve their performance.

(ii) The evaluation of a particular Contractor's past performance and the importance placed upon the various subfactors listed below should be done in such a way as to motivate the Contractor to improve its performance. For instance, it might be pointless, in evaluating the performance of an autonomous division of a multidivisional contractor, to place emphasis on the performance of another autonomous division. Under such circumstances, the management of the division being evaluated might have no means of controlling the performance of the other division; therefore, emphasis on this performance by assigning a plus or minus rating to this factor might have a negative effect upon motivation to improve.

(iii) The weight to be assigned to this factor is arrived at on a judgment basis rather than an arithmetical averaging of weights assigned to all factors, depending upon the particular procurement situation, and the relative importance of the various factors. For example, an evaluation of a particular Contractor may indicate that its performance was satisfactory in most areas, except that it showed a preference for doing all work in-house and a disinclination to support Government small business objectives. In such a case the Contracting Officer may feel that the importance of these factors might justify the assignment of a lower overall rating for the record of past performance.

(iv) As stated above, the purpose of this factor is to reward a Contractor for excellent past performance and penalize it for poor performance. Therefore, performance which is rated as merely satisfactory should generally be assigned a weight of zero. However, a Contractor who has consistently met

contractual requirements may be awarded a plus.

(v) The following factors are to be considered in evaluating a Contractor's performance record:

(A) *Cost efficiency.* Low cost performance reflecting economic use of facilities and manpower, sound purchasing methods and subcontracting procedures, and effective inventory control are criteria for consideration. Improvement in efficiency through investment in plant modernization, past efficiencies, or lack thereof, effectiveness of the Contractor's make-or-buy program, purchasing and subcontracting system and inventory control should be evaluated.

(B) *Management.* Stability and competence of management personnel, their willingness and ability to adjust company resources to meet peculiarly difficult and changing control requirements are criteria for consideration. The degree of cooperation by the Contractor with the objectives of the Government should be considered.

(C) *Extent of the contractor's investment.* The extent of a Contractor's total investment (i.e., both equity and borrowed capital) in the performance of the contract will be taken into consideration in determining the amount of the fee or profits.

(D) *Reliability of cost estimates.* Accuracy and reliability of previous cost estimates should be considered. Where substantial overruns have occurred, the Contracting Officer should attempt to determine the reasons.

(E) *Inventive and developmental contributions.* Extent and nature of Contractor-initiated and financed research, development, design work, product engineering, quality control, and manufacturing processes and techniques in the areas of concern to the EPA should be analyzed.

(F) *Timely performance.* The Contractor's performance record, considering excusable delays and the Contractor's efforts to overcome delays, should be analyzed.

(G) *Small business participation.* The Contractor's policies and procedures which energetically support Government small business programs pursuant to FAR subpart 19.7 should be given favorable consideration. Any unusual